

VZCZCXRO6506
PP RUEHCN RUEHGH RUEHVC
DE RUEHSH #0145/01 2080726

ZNY CCCCC ZZH
P 270726Z JUL 07 ZDK
FM AMCONSUL SHENYANG
TO RUEHC/SECSTATE WASHDC PRIORITY 8139
INFO RUEHOO/CHINA POSTS COLLECTIVE
RUEHBJ/AMEMBASSY BEIJING 7877
RUEHUL/AMEMBASSY SEOUL 1757
RUEAIIA/CIA WASHDC 0045
RHMFIASS/COMUSKOREA J2 SEOUL KOR
RUEKJCS/DIA WASHDC 0036
RHHJJAA/JICPAC PEARL HARBOR HI 0003
RHEHAAA/NSC WASHDC
RHMFIASS/SACINCUNC SEOUL KOR
RUEKJCS/SECDEF WASHDC 0065
RUENAAA/SECNAV WASHDC 0001
RUCNDT/USMISSION USUN NEW YORK 0009

C O N F I D E N T I A L SECTION 01 OF 03 SHENYANG 000145

SIPDIS

SIPDIS

DEPARTMENT FOR INR, EAP/CM, EAP/K

E.O. 12958: DECL: TEN YEARS AFTER KOREAN UNIFICATION
TAGS: PINR PGOV ECON PREL KN KS CH
SUBJECT: PRC-DPRK: BORDER OFFICIALS ON MUSAN MINE, RAJIN
HARBOR, CROSS-BORDER DEVELOPMENTS

REF: A. (A) SHENYANG 126
 1B. (B) SHENYANG 101

SHENYANG 00000145 001.2 OF 003

Classified By: CONSUL GENERAL STEPHEN B. WICKMAN.
REASONS: 1.4(b)/(d).

11. (C) SUMMARY: PRC imports of North Korean iron ore from Musan are fueling a surge in activity at China's Nanping Land Port; Chinese truckers collecting the ore comprised over ninety percent of the 50,000 passengers that transited the port last year, local Chinese officials say. Plans to link northern Jilin Province by road with Rajin harbor-- where two Chinese firms have secured fifty-year user rights to several docks, theoretically offering the PRC an outlet to the Sea of Japan--are still in the works, though local officials report that plans for a Chinese industrial park near Rajin are on hold until the road link is operational. Border authorities are far less optimistic about the number of regulated barter-trade schemes all along the border-- whether in the form of existing zones or aspirational plans--that have run aground in recent years. But proposals--and hopes--continue nonetheless. END SUMMARY.

12. (C) Poloff traveled to the Yanbian Ethnic Korean Autonomous Prefecture July 16-18, meeting with local PRC political and trade officials in Yanji, as well as in the key Yanbian PRC-DPRK border localities of Helong, Hunchun and Tumen.

HELONG: GATEWAY TO MUSAN AND NORTH KOREAN MINING

13. (C) Helong sits 70 kilometers south of Yanji, shares a 160-kilometer border with the DPRK, and administers two land ports to North Korea: Nanping--across from Musan, home to one of Asia's largest iron ore mines--and Chongshan's Guchengli, across the Tumen River from Samjang (see ref A for latest spot reports on both). Helong's trade fortunes are heavily tied to Nanping, Jilin Province's largest and the PRC's third most important land port, LI Guofu, Director of Helong's Port Administration Office and its Bureau of Commerce, told Poloff on July 18. Nanping in 2006 saw a trade volume of 840,000 tons and accounted for

roughly 70 percent of Helong's total 2006 foreign trade, which totaled 1.2 million tons valued at USD 250 million. Imports comprised USD 172 million (primarily North Korean iron ore from Musan and lumber), and exports USD 81.8 million (mostly grain, processed food, seafood and light industrial products). By contrast, Guchengli Land Port last year saw less than a tenth of Nanping's total volume--just 80,000 tons, according to Li. Pyongyang's October 2006 nuclear test had "no effect" on Helong, nor did it usher in any changes in border trade or inspections thereof, Li claimed.

THE MUSAN MINE: POLITICAL (AND ENVIRONMENTAL) SENSITIVITY

¶4. (C) Director Li and Helong Foreign Affairs Office (FAO) Deputy Director JIN Xiongjie became noticeably more guarded when asked about recent Chinese investment in the Musan iron mine. Li confirmed that the privately-owned Yanbian Tianchi Industrial Trade Company had acquired fifty-year-long mining rights in Musan but said no other PRC enterprises were/are a party to the venture. Li conceded that Tianchi had contracts with the Tonghua Iron and Steel Group--Jilin Province's state-owned steel heavyweight--but denied that Tonghua itself was a party to the Musan agreement, as reported in Chinese-language and other media outlets. Li would only add that he expects Musan iron ore imports through Nanping to continue to grow, alongside imports of other North Korean minerals, as PRC firms continue to negotiate with Pyongyang on developing other proximate mines on DPRK territory.

¶5. (C) One somewhat overlooked aspect of the Musan mine, particularly in recent press reporting, has been its local ecological impact. Both Li and Jin acknowledged that the mine had for quite some time posed certain environmental problems for stretches of the Tumen River near Helong, but

SHENYANG 00000145 002.2 OF 003

they took pains to argue that the North Korean side has been the source of the problem. Li explained that iron ore extracted from Musan is crushed and washed before being trucked across the border to Nanping, where it is then further processed by Tianchi. It is primarily in the washing process that toxins enter the river. Li claimed that the North Korean side had recently "taken some actions" to improve the pollution problem but demurred on specifics. He seemed to imply, however, that the DPRK's "actions" had been taken in response to Chinese prodding.

¶6. (C) Environmental sensitivities notwithstanding, Helong officials sounded an upbeat tone on Nanping, which continues to see increasing activity. Helong's Port Administration Office has extended Nanping Land Port's hours of operation by an hour, Li said, so that trucks can now more easily make day trips into North Korea to haul iron ore. And cross-border Nanping-Musan traffic has not been insignificant. Li said that truckers comprised over ninety percent of the 50,000 passengers transiting the port last year, approaching 3500 transits per month on average.

HUNCHUN: GATEWAY TO RASON AND THE SEA OF JAPAN?

¶7. (C) Hunchun sits 90 kilometers north of Yanji, shares a 130-kilometer border with the DPRK and is home to two PRC-DPRK land ports: Quanhe--a significant trade conduit that offers a straight shot to Rason, North Korea--and the far less significant Shatuozi. In 2006, Russia loomed largest in Hunchun's foreign trade mix, accounting for nearly half of its USD 450 million year-end overall total; PRC-DPRK trade through Quanhe/Shatuozi amounted to only about USD 50 million, according to JIN Xi, deputy head of Hunchun's local trade promotion authority, and ZHAO Bin, Deputy Director of Hunchun's FAO. Echoing Helong port officials, Jin and Zhao told Poloff on July 17 that the DPRK's nuclear test has had "no effect" on Hunchun, whether on trade or

its trade inspections regime.

¶8. (C) Zhao and Jim both became remarkably cagey when asked about Hunchun's ambitious but seemingly problematic plans for integrating the city with Rason via Hunchun's so-called "road-port-zone" (lu-gang-qu) project. The project envisions a PRC entity upgrading the 48-kilometer road linking Quanhe and Rajin; making use of piers (matou) in Rajin harbor for shipping purposes; and constructing an industrial park not far from the latter. Hunchun's 11th Five-Year Plan claims that the project has already achieved "substantive" progress, but both Zhao and Jin sounded slightly less categorical. Hunchun's privately-owned Donglin Trade Company has officially contracted to upgrade the road; Donglin has also, Zhao and Jin confirmed, partnered with the Rason municipal government--forming with it and another Hunchun firm the Rason International Logistics Joint Company--and acquired 50-year user rights to Rajin Port's Pier 3, as well as rights to construct and use Pier 4. However, plans for the five-to-ten-square-kilometer "zone" (i.e., the industrial park) are on hold until the road is paved, according to Jin. Media reports and even Hunchun's own most recent Five-Year Plan seem to suggest that Hunchun--and thus the PRC--may have some official hand in these Quanhe-Rason integration plans. When pressed on this, however, Jin and Zhao repeatedly claimed that on the Chinese side it is a fully private project, albeit one supported by the Hunchun government.

¶9. (C) Hunchun, in the meantime, continues to be a base for Chinese investment in North Korean light industry, attracting mostly small- and medium-sized local firms seeking low wage rates and a platform for the production of plastic goods, rubber boots, and undergarments, inter alia. Hunchun-based investment has not so far extended to Chinese state-owned enterprises (SOEs), Jin claimed. Hunchun continues to primarily process North Korean seafood products in its Export Processing Zone, though the zone is likely to be eclipsed by a Sino-Russian Cooperative

SHENYANG 00000145 003.2 OF 003

Industrial Zone focused on timber processing slated to open later this month.

BARTER-TRADE ZONES FLAGGING ALONG THE BORDER

¶10. (C) Regulated barter-trade schemes all along the border, whether in the form of existing zones or aspirational plans, have fared quite poorly in recent years and continue to do so. No established barter-trade zone, for instance, is currently operational along the border, Tumen FAO Director CUI Zhenglong (protect) privately told Poloff on July 18. But proposals--and hopes--continue nonetheless. Helong FAO Director Jin Xiongjie told Poloff that Helong has plans for a barter-trade zone, though he offered no specifics. Hunchun's Quanhe-Yuandingli Barter-Trade Zone closed several years ago because of a lack of "complementarity," FAO Deputy Director Zhao Bin said--i.e., the North Korean side could offer nothing of interest to Chinese traders and the zone fell into desuetude. In 2005 Beijing authorities gave a green light to Hunchun's plans for a new PRC-DPRK barter-trade zone just 12 kilometers from Hunchun on Qingyuan County's Liuduo Island, but hopeful Hunchun authorities have yet to receive approval from Pyongyang. Asked when the authorization might be forthcoming, Zhao said "the sooner the better," only thinly disguising his annoyance at North Korean delays. Even so, Zhao and Hunchun trade official Jin Xi could offer little insight on how Liuduo would differ from the ill-fated Quanhe-Yuandingli zone and overcome the "complementarity" problem.

¶11. (C) Other proposed barter-trade zone projects are languishing elsewhere along the border, largely as a result of DPRK stalling according to local Chinese border

officials. Included here are proposed PRC-DPRK zones for Tumen/Onsung County (ref A), Sanhe/Hoeryong and Changbai/Hyesan (ref B).

WICKMAN